

MuhlenkampMethods

For the Intelligent Investor

Answers to questions you may not even know you have.

Thoughts on the Future

This essay was originally published in Muhlenkamp Memorandum Issue 41, January 1997.

I have been asked by a local paper to write a short essay on the future.

The future is good! The future is good because large parts of the world population are adopting freer markets. In Asia, in Eastern Europe, and in much of South America, the move from state-controlled economies to free-market economies is now irreversible.

In a free market, the consumer is king. Each individual can choose whether to buy, what to buy, and at what price. No producer can make a consumer buy its product. Instead, producers must compete for the consumer's business. This competition can take many forms, but it is all aimed at serving the needs and desires of the consumer. Because of this, the true value of free markets comes to fruition.

The true value of a free market is that it provides incentives for each person to serve his or her fellow man. If you serve the needs of your fellow citizen, he or she will pay you. If you don't serve someone's needs, no one will pay you. Thus, the way to better yourself economically is to provide goods and services that other people desire. In fact, you can get rich by providing others with what they want. Further, you can *only* get rich by providing what others want. Whether providing new or imaginative goods and services (from microwave ovens to the Internet) or existing goods and services at cheaper prices (read Sam Walton's autobiography), the standard for an individual's economic success is the degree to which he or she serves the needs and wants of others. As a consumer, I will pay only those who provide what I want. As a producer, I will be paid only by those to whom I provide a service that they want.

To criticize some consumers because their choice of incentive is different from mine is shortsighted. Every business transaction in a free market has a dual outcome. The buyer gets the product he or she chooses, and the seller gets paid for the product or service. The buyer sets the agenda because the product must be chosen before it is bought, otherwise it will rot on the shelf. Thus, consumers have the ultimate say in what is produced, and only those goods and services of value to consumers will be rewarding to producers.



These consumer-driven, free-market rules know no boundaries of geography or politics. No American was forced to buy a Sony or a Toyota. We did so willingly, because we perceived a better value for ourselves. In a free market, no one is forced to buy an airplane from Boeing, a soft drink from Coca-Cola, or a computer chip from Intel. They do so willingly because they perceive a better value to themselves. As the number of people participating in free markets expands, we will each have access to the greater values produced by all of us.

Much of the focus on free markets has been on the dislocation to the producer/worker as a result of the constant changes driven by the consumer. This focus has two major faults. It ignores the fact that all workers are consumers, and it focuses on the transition rather than the result. The transition can be traumatic, but it is temporary. In the United States, we have accomplished exemplary results. Each generation's living standard has improved over the prior one; this will continue. What we must improve upon are the methods and the attitudes that we use to help people through the transition.

A second focus has been on the failure to fulfill all our desires at once. But this is simply a matter of priorities. In 1954 Abraham Maslow published a treatise positing a hierarchy of human needs. After the basic needs of food, shelter, and safety, he listed the needs of love, esteem, and self-actualization. He went on to state that, "As each need is satisfied, the next higher level dominates conscious function." In the United States today, it is not difficult for each of us to provide for the basic needs of food, clothing, and shelter. They are available to anyone willing and able to work. And in concert with Maslow's hierarchy, the discourse on human needs for much of the population has shifted to higher-order needs such as love and self-esteem. Human concern for the environment, for example, will always be subordinate to food, clothing, and shelter. Only after these needs are met (and taken for granted) will secondary needs be addressed. That is why the air and water in the United States is cleaner today than in the past and is cleaner than in most developing countries. The very prosperity of the United States has moved clean air and water to a dominant position in the public's consciousness. Economic prosperity doesn't solve all problems, but it does provide the means to solve many of them.

Our remaining problem is that we haven't learned to live with our prosperity. Our economic well-being has progressed faster than our social theories on how to deal with discretionary time and money. Our attitudes toward work were appropriate to a time when work was drudgery. In most occupations, we've rid ourselves of the drudgery, but not the attitude. We've lost sight of the fact that useful work is also a way of serving others, and it is also a primary source of self-esteem. All too often, we teach our



young: if it is useful, call it work and avoid it; if it's useless, call it play and pursue it. Then we complain that they have no self-esteem. I know many people who have found happiness in their work. I know none who have found happiness or self-esteem on the party circuit. Properly understood, the pursuits of economic prosperity and human fulfillment are complementary.

